

Taney

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 89-601-W/S - ORDER NO. 90-796 ✓
AUGUST 22, 1990

IN RE: Application of Wild Dunes Utilities,
Inc., for Approval of New Schedules
of Rates and Charges for Water and
Sewer Service Provided to its Customers
in its Service Area in South Carolina.

) ORDER GRANTING
) IN PART AND
) DENYING IN PART
) PETITION FOR
) REHEARING AND
) RECONSIDERATION
) OF ORDER
) NO. 90-650

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of a Petition for Rehearing and Reconsideration of Order No. 90-650 issued in the instant docket and dated July 3, 1990. The Petition was filed on behalf of Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate). The Consumer Advocate alleges several errors on the part of the Commission in Order No. 90-650.

Specifically, the Consumer Advocate alleges that the Commission erred in allowing Wild Dunes to amortize over a five (5) year period lost revenues through the Company's operating expenses; that the Commission erred by not taking into consideration direct costs such as purchased power and chemicals which would not have been incurred due to Hurricane Hugo; that the Commission erred when it indicated that this was the first rate proceeding in which the Commission considered the impact of Hurricane Hugo on a utility;

that the Commission erred in stating that the Consumer Advocate proposed that \$71,000 be amortized over five (5) years; that the Commission erred in concluding that a fair operating margin for Wild Dunes is 26.92%; and that the Commission erred in approving a plant impact fee for both water and sewer customers.

The Commission has considered the allegations of error contained in the Petition filed on behalf of the Consumer Advocate and finds that as to the Consumer Advocate's allegation that the Commission failed to take into consideration certain expenses that may not have been incurred as a result of customers being off line due to Hurricane Hugo, the record before the Commission does not adequately reflect that any lost expenses should be recognized. Since the Commission considered revenues that were lost to the Company due to customers being off line from Hurricane Hugo, the Commission should concomitantly consider that there may be some expenses that were not incurred by the Company as a result of Hurricane Hugo. Since the record is deficient in this regard, the Commission has determined that it is necessary to schedule a rehearing to consider what expenses may not have been incurred or may have been reduced by the Company on account of Hurricane Hugo. The rehearing will be for this limited purpose only, and all parties will be notified as to when the hearing in this matter will be scheduled.

As to the allegation of error concerning the Commission's five (5) year amortization of the lost revenues attributable to Hurricane Hugo as included in O&M expenses, the Commission has

determined that the evidence in the record supports its decision. As testified to by witness Wenz, the end result of amortizing the lost revenues over a five (5) year period in O&M expenses or as a direct charge against revenues would have the same effect. More importantly, whether the lost revenues are directly charged against revenues or included in O&M expenses will not affect cash working capital nor will it affect net operating income. The Commission's inclusion of lost revenues associated with Hurricane Hugo in O&M expenses, basically simplified the accounting adjustment necessary to recognize that all revenues or expenses lost or incurred due to Hugo would be included in one account and amortized over a five (5) year period. As witness Wenz testified, another account could be used but the nature would not change. The Commission finds that its treatment of lost revenues is appropriate, and that the Commission's decision concerning lost revenues in Order No. 90-650 should not be changed or modified.

The Consumer Advocate also alleges that the Commission erred when it indicated that this was the first rate case proceeding in which the Commission had to consider one of the utilities affected by the destruction of Hugo. The Consumer Advocate contends that another proceeding, Docket No. 89-543-E, Petition of South Carolina Electric and Gas Company (SCE&G) for the Recovery of Certain Storm Damage Expenses, was the first rate case proceeding to consider Hugo damages. The Commission once again reiterates its position that the Wild Dunes Application was the first rate case to consider Hugo damages. While the SCE&G proceeding certainly considered

Hurricane Hugo storm damages, it was not a rate case proceeding. Particularly, Order No. 90-132 issued in the SCE&G docket approved an accounting method proposed by SCE&G. SCE&G used certain deferred credits from a Westinghouse settlement to offset the cost of the storm. There, the Commission approved a unique accounting treatment to offset the costs of Hurricane Hugo. It is also important to note that customers of Wild Dunes are still off line. Customers of SCE&G, while off line for a period of time, have been on line for quite some time. Any revenues lost by SCE&G could not compare in a relative sense to the revenues lost to Wild Dunes.

The Consumer Advocate next alleges that the Commission erred by stating the the Consumer Advocate proposed that \$71,000 be amortized over five (5) years. The Consumer Advocate points out that in his Brief, his final recommendation was consistent with that of the Commission Staff, a five (5) year amortization of \$27,620. The Commission takes notice of this change in the Consumer Advocate's recommendation and accepts the contention of the Consumer Advocate which is consistent with that of the Commission Staff.

The Consumer Advocate alleged that the Commission erred in concluding that a fair operating margin for Wild Dunes is 26.92%. One reason given by the Consumer Advocate that the Commission erred in granting a 26.92% operating margin is that the operating margin approved by the Commission is more than double the operating margin authorized for the Company's sister utility, Carolina Water Service, Inc., approximately one (1) year ago. The Consumer

Advocate contends that both of these utilities are part of the same consolidated system, Utilities, Inc. According to the Consumer Advocate, both companies are exposed to the same inherent risk and therefore it is inconsistent, as well as improper, for the Commission to set an operating margin for Carolina Water Service of 10.27% and an operating margin of Wild Dunes of 26.92%.

In response, the Commission is of the opinion that it is inappropriate to compare operating margins of two (2) different companies. While Wild Dunes and Carolina Water Service, Inc. may be sister utilities, they are not exposed to the same inherent risks. Carolina Water Service, Inc. is a much larger utility than Wild Dunes and it consist of many systems operating throughout the State of South Carolina. Wild Dunes, on the other hand, is only one (1) system operating on the coast of South Carolina and as indicated by the impact of Hurricane Hugo is not exposed to the same inherent risks as Carolina Water Service, Inc. Therefore, it is appropriate for an operating margin of one utility to be different from another. This reflects a difference in operating expenses including the number of employees, the cost of operating the systems, the difference in customer base, among others.

Additionally, the Consumer Advocate contends that the Commission has provided no findings as to how it derived the 26.92% operating margin and how it balances the interest of the ratepayers and the stock holders. As pointed out in Order No. 90-650 at Page 34, the relevant factors are: (1) the revenue requirements for the Company, (2) the proposed price for which the Company's service is

rendered, (3) the quality of that service, and (4) the effect of the proposal upon the consumer, among others. As to the revenue requirements for the Company, the Commission considered the expenses and capital costs incurred by the Company to up-grade and repair the water and wastewater treatment facilities, to relocate the Company's office and to improve customer service. The Company refurbished and painted water tanks and improved and expanded the wastewater treatment plant. The total capital investment by the Company in this regard was \$675,000. Additionally, other expenses as outlined in Evidence and Conclusion for findings of fact Nos. 6, 7, and 8 were considered by the Commission. The Company incurs on a recurring basis many expenses so that the system may operate in an efficient manner and provide adequate service to its customers. The revenue requirements to meet these expenses and provide some profit to the Company was found to be at a level of \$905,509.

The Commission considered the proposed price for which the Company's service is rendered. The Commission initially considered the proposed rates and charges and the resultant revenue and expense level generated by those rates. The Commission, using the operating margin as a "guide" determined that at the proposed level, the rates and charges were not reasonable. The Commission adjusted the level of revenues downward and the resultant operating margin of 26.92% was found to produce a reasonable level of revenues. That reasonable level of revenues required an adjustment in the proposed rates. The Commission therefore reduced the proposed rates to reflect the appropriate level of revenues

required for the Company. This primarily affected the commodity charge proposed by the Company for water and sewer service.

In considering the quality of service, the Commission again relied upon the testimony of witness Deaver that stated that many improvements had been made to the system, and the Company has made a greater effort to respond to customer complaints. The Commission Staff Report indicated that there had been no service complaints to the Staff during the test year and the two (2) previous years. Staff received two (2) billing complaints during the test year and two (2) previous years which were basic billing inquiries. The Commission also noted in Order No. 90-650 that only five (5) letters in opposition to the increase were received and they primarily complained about the fluoride problem which is to be corrected. Some of the letters also complained about the amount of the proposed increase. The Commission is of the opinion that adequate service is being provided by the Company and that the Company is meeting the DHEC standards. As to the effect of the proposal upon the consumer, while the Commission is aware that the Company's ratepayers will pay a higher rate for the service, the impact of the increase will not be severe to the customers of Wild Dunes. As supported by the record, Wild Dunes is known as being a resort community and many of the homes in the development are not primary residences of the owners. The customers of Wild Dunes are paying a reasonable rate for water and sewer service which meets the Commission's standards and DHEC standards. Considering the spectrum of relevant factors as outlined herein, the Commission's

decision is supported by evidence and contains ample findings. It should not be modified or altered.

As to the Consumer Advocate's contention that the operating margin should be consistent with those realized by others enterprises having corresponding risks, the Commission reiterates its previous discussion herein concerning the comparison of one company's operating margin with that of another.

Lastly, the Consumer Advocate contends that the Commission failed (1) to set forth sufficient findings on the plant impact fee, (2) to have requisite statutory authority to approve a plant impact fee, and (3) to base its approval of the impact fee on reliable or substantial evidence. The Consumer Advocate points to the Company's response to the Consumer Advocate's first set of interrogatories, namely response 1-24, claiming that the response is inadequate. However, a review of the Company's response to question 1-24 and the financial information introduced by witness Wenz demonstrates that the purpose of the fee is to recover a portion of the investment made by the Company in providing the capacity needed to serve a single family equivalent unit. As the books of the Company in this case reflect, the investment in plant and equipment used and useful in serving customers, both present and future, is substantially greater than the amount recovered by the Company in the form of plant impact fees or sewer tap fees. Both the water and sewer tap fees and the plant impact fees are used to reduce the Company's rate base. As such, it has a ripple effect upon the Company's overall cost of operation and rate of

return, lowering both. Ideally, the amount of plant impact fees received would offset on a dollar for dollar basis the Company's total investment in plant and facilities. In practice, however, this offset almost never occurs. In Wild Dunes, a review of the Company's financial data presented in this case shows that the Company's total rate base for water operations is \$1,363,066.00 and for sewer operation it is \$1,195.738.00. Thus, in order to fully recover investment made in sewer facilities at \$700 per tap, the Company would have to sell in excess of 1,700 taps. For water services the amounts would be greater as over 1900 additional taps would need to be sold in order to recover the investment already made, disregarding the projected cost for the reverse osmosis system.

The Commission did rely upon the fact that the Company projects that it will complete a reverse osmosis system in the future. This simply adds credence to the reasonableness of the fee. Yet, the fee itself is provable by the substantial evidence of record which is currently known and measurable, that is, that the current investment of the Company in plant and facilities used and useful in providing services justifies a plant impact fee per single family equivalent of at least \$700 for both water and sewer services.

While the Commission clearly relied upon and referred to the projected investment in the reverse osmosis system in its initial order, the facts of this case support in full the increased plant impact fee. It is accepted ratemaking methodology to return a


portion or all of the capital invested by a utility company through the establishment of a charge such as a plant impact fee, which is designed to recover a portion of the cost incurred by the company in making the capacity available that is required to serve a single family equivalent unit. When the current plant impact fee is compared to the total investment now outstanding, it is clear to the Commission that the fee proposed is fair, reasonable, and fully supported by the evidence of record.

Based upon the foregoing, the Commission finds that as to the issue of reduced or "lost" expenses due to Hurricane Hugo, the Consumer Advocate's Petition for Rehearing is granted, and all parties will receive notice of the hearing date. Discovery may be had by the parties and Staff on this one issue. As to the sufficiency of the findings concerning the approved operating margin, the Commission's discussion herein should be considered in addition to the findings contained in Order No. 90-650. The

Commission accepts the Consumer Advocate's allegation that it agreed with the Commission Staff's adjustment on the amortization issue. As to all other issues raised by the Consumer Advocate, this Order further clarifies and denies those issues.

IT IS SO ORDERED.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)